



IDAHO ECONOMIC SLOWDOWN LIKELY TO CONTINUE IN 2008

The past year, 2007, was a year of firsts for the Idaho economy.

- First time with an unemployment rate below 3 percent
- First time total employment exceeded 750,000
- First time exports will exceed \$4 billion
- First time gross state product will exceed \$50 billion

They all come on the heels of 2006 – one of the strongest years ever for the Idaho economy – a year that future economic performance will be measured against.

That fact by itself tells the story. Despite the strong performance and economic firsts, Idaho's economy began slowing in 2007 and will continue slowing into late 2008 before gradually picking up momentum again in 2009.

There is no decline. Population growth alone will keep the economy expanding in the coming year, but the rate of growth will be down significantly.

The Federal Reserve's latest Beige Book sees that circumstance throughout the San Francisco District, which includes the states west of the Rockies.

More and more national analysts and economists are predicting everything from a slowdown to a full-blown recession in the coming year. Subprime mortgage problems stifling the housing market, the credit crunch, oil flirting with \$100 a barrel are just a few of their reasons.

But while Idaho is not immune to the fallout of national economic troubles, any slowdown will likely translate only into slower growth – not actual job and productivity losses – across the state.

SIGNS OF SLOWDOWN

This past year marked that slower course. Nearly 17,000 new nonfarm jobs in 2007 fell over 11,000 short of job creation in 2006. That 2.6 percent growth rate compares to 4.6 percent in 2006, 4 percent in 2005 and even 2.8 percent in 2004. But compared to the rest of the nation, it is still one of the strongest of all the states. Only five states had higher growth rates last year – Utah, Wyoming, Louisiana, Arizona and Montana.

It appears unemployment has hit bottom. Idaho's unemployment rate was the lowest in the nation in May, July, August, September, October and November. But the rate climbed three-tenths of a point in December, the largest November-December increase on record and the third straight month the rate has risen. The last time that happened was August, September and October 1982, when unemployment peaked at 9.4 percent. It is one sign that as the national economy slows, Idaho's economy, while still producing new jobs, will be growing at much slower rates than in 2005, 2006 and the earlier part of 2007. *See FYI Table 1 on page 26 for a comparison of U.S., Idaho monthly unemployment rates, 1997-2007.*

The state unemployment rate is running about two percentage points below the national rate and has been lower than the national rate for the past six years. That should be the case for at least the next two although the gap will likely close.

Over the last three years, the Idaho economy has generated nearly 69,000 new jobs. Almost a quarter of them were on the production side of the economy, and the vast majority of those were in construction. *See FYI Tables 2 and 3 on page 27 to see sectors that contributed to job growth for 2006-2007 and the projections for 2008-2009 and a comparison of growth to other states.*

INCENTIVES FOR GROWTH

The economic development efforts of the Department of Commerce and Labor, for the more than three years the two were merged, played a major role in this growth, combining incentives like community development block grants, the deal-closing fund and the Workforce Development Training Fund to convince companies like Buck Knives, Hoku Scientific, Hilex Poly, XL Four Star Beef, Dutchman, Peterson steel fabricators, Jayco, Unicep Packaging, Modello, DOT Foods, ComTek and Empire Airlines to locate in Idaho.

Of all the options, the training fund is one of the state's premier incentives. In just the last 18 months, this business-financed program has put \$2.7 million into training over 1,000 workers for 17 different companies. The training for these workers cost an average of \$2,600

each, but their paychecks are averaging over \$15 an hour.

In addition, the Department of Labor right now has committed \$7.2 million more from the fund to train another 2,300 workers for 30 companies, and talks are still under way involving expansions of RxElite in Nampa and ATK in Lewiston.

The Department of Labor is also building on the experience gained during the merger with Commerce to strengthen the ties its 24 local offices have with their business communities through employer associations that focus on issues important to businesses like employee recruitment and retention and controlling unemployment insurance costs.

The Workforce Development Training Fund is being used to finance a new job applicant screening program to help employers determine whether potential hires have the skills needed for the job. This has been extremely successful in the pilot stage in Coeur d'Alene and will be offered to all local offices where the employers believe it will help them.

A work force summit in Twin Falls last September has generated broad enthusiasm across the state in setting up regional panels to develop strategies for dealing with spot labor shortages.

And the department hopes to win legislative approval this winter for converting what has been an unsuccessful \$1 million work force training loan program into a pilot 50-50 matching grant program to train incumbent workers for high-demand, high-paying jobs.

Construction employment and the high wages it provides have been driving Idaho's economy for the past several years with double digit percentage increases in both 2005 and 2006. But modest growth during the winter months of 2007 faded to no growth by spring, and construction jobs since then have been running slightly below the 2006 level.

During the post-recession housing boom, construction provided 20 percent to 25 percent of all new jobs. Commercial construction is offsetting most of the home-building decline, but not all of it.

It is showing up in the unemployment reports. This past October, 15 percent of claimants were in construction. A year earlier only 10 percent were.

Another comparatively good-paying sector – manufacturing – lost jobs in 2007 after expanding in both 2005 and 2006. Idaho has been one of just a handful of states to add manufacturing jobs in the past several years. But more than 1,100 layoffs at Micron Technology and smaller layoffs at several other companies throughout the state changed that picture.

That's also part of the changing unemployment profile. Nineteen percent of claimants worked in manufacturing this fall but only 15 percent in the fall of 2006.

In the past year the production side of the economy has been flat – zero growth. Wages – based on 2006 figures – averaged more than \$38,000.

Idaho still has 19 percent of its jobs and 28 percent of its gross domestic product in production – higher than all but 14 other states. But that is slowly giving way to services.

They drove the economy in 2007 – retail trade, business services including temp agencies, education, health care and hotels, restaurants and bars – sectors that thrive amid population growth but don't bring substantial money in from outside the state. They make their profits by serving the people who already live and work here.

The service sector accounted for all the new jobs created this year – jobs that averaged less than \$31,000 in 2006, about 80 percent of the average pay in the production sector.

UNEMPLOYMENT INSURANCE CLAIMS

Claims on the Unemployment Insurance Trust Fund bottomed out in 2006. Fewer than 40,000 workers collected benefits that year, down from 60,000 at the peak in 2003. The average time workers were on benefits was just over 11.5 weeks compared to nearly 13.5 in 2003.

By the end of last January, however, weeks being compensated began exceeding the same period in 2006. They jumped higher than 2005 in late September and moved higher than 2004 at the end of November. As the year closed, the increase for 2007 over 2006 was over 11 percent.

Still, this is a far cry from 2003 when the fund paid out over \$180 million in benefits during the fallout from the national recession. Last year's benefit payments totaled about \$121 million. That reflects in part the upward adjustment in benefits because of rising wages, but it also shows workers are collecting benefits for a slightly longer period.

The revision of the unemployment law in 2005 combined with the strong economy since then has rebuilt the trust fund to over \$300 million at the end of December. That compares to \$190 million at the end of 2004. Until earlier in 2007, falling claims have further strengthened the fund to produce not only a 22 percent reduction in the employer tax rate for 2007 but another 30 percent cut in 2008.

The turn in the economy over the past several months, however, is changing that. Benefit payments in 2008 are now estimated to exceed tax receipts by about \$30 million. Based on the current forecast, that will trigger a 9 percent tax rate increase in 2009 and a 45 percent increase in 2010. See *Tables 4-6 on pages 28-29 for more details on unemployment insurance activity.*

JOB GROWTH PROJECTIONS

The department's job projections through mid-2009 suggest job growth will run around 2 percent, possibly a little higher, for the next six to nine months before beginning to move upward toward the end of 2008 and then possibly picking up a little more momentum during the first half of 2009.

For the two years overall through June 2009, the average annual job growth rate should run around 2.5 percent. From mid-2005 through mid-2007, job growth averaged 4.2 percent.

The job mix pulling out of the 2008 slowdown will also be different from the mix following the 2001 national recession.

About 50,000 new jobs were created between mid-2005 and mid-2007. By comparison, about 36,000 new jobs will be generated between mid-2007 and mid-2009. More than half should develop during the last 12 months.

But instead of higher-paying construction and manufacturing jobs, which accounted for 28 percent of the 50,000 new jobs the last two years, the big contributors

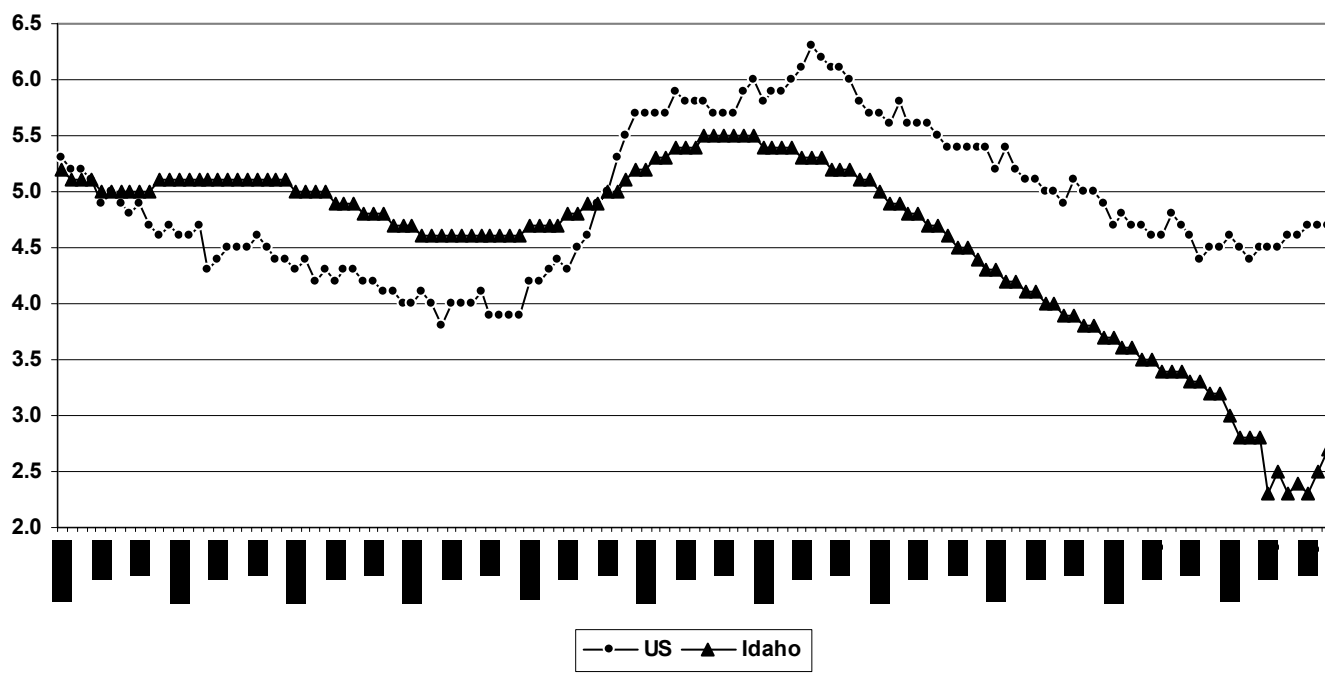
through mid-2009 will be health care and education, both public and private. Over 30 percent of those 36,000 jobs will be in those sectors, which generated only 14 percent of the new jobs from July 2005 through June 2007. Construction and manufacturing will provide less than 4 percent.

Professional and business services will provide 17 percent of the new jobs, up from 15 percent the previous two years. Retail trade, hotel and restaurant jobs will be down slightly at 23 percent through mid-2009 from 26 percent the last two years.

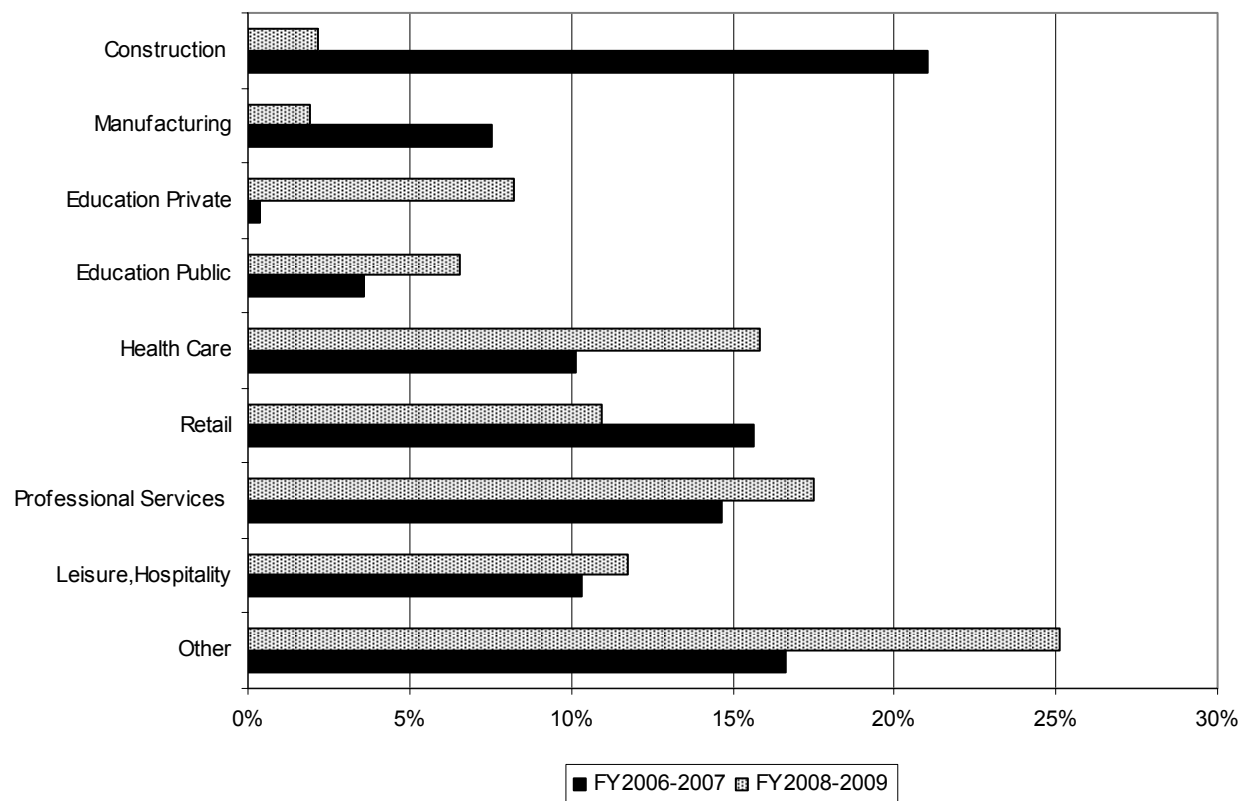
Job growth will remain slow in the coming months before gradually picking up again late this year and into 2009, but it will not be approaching the growth rates of the past two fiscal years. And the bulk of the jobs generally will not be in the higher-paying sectors that marked the past two fiscal years.

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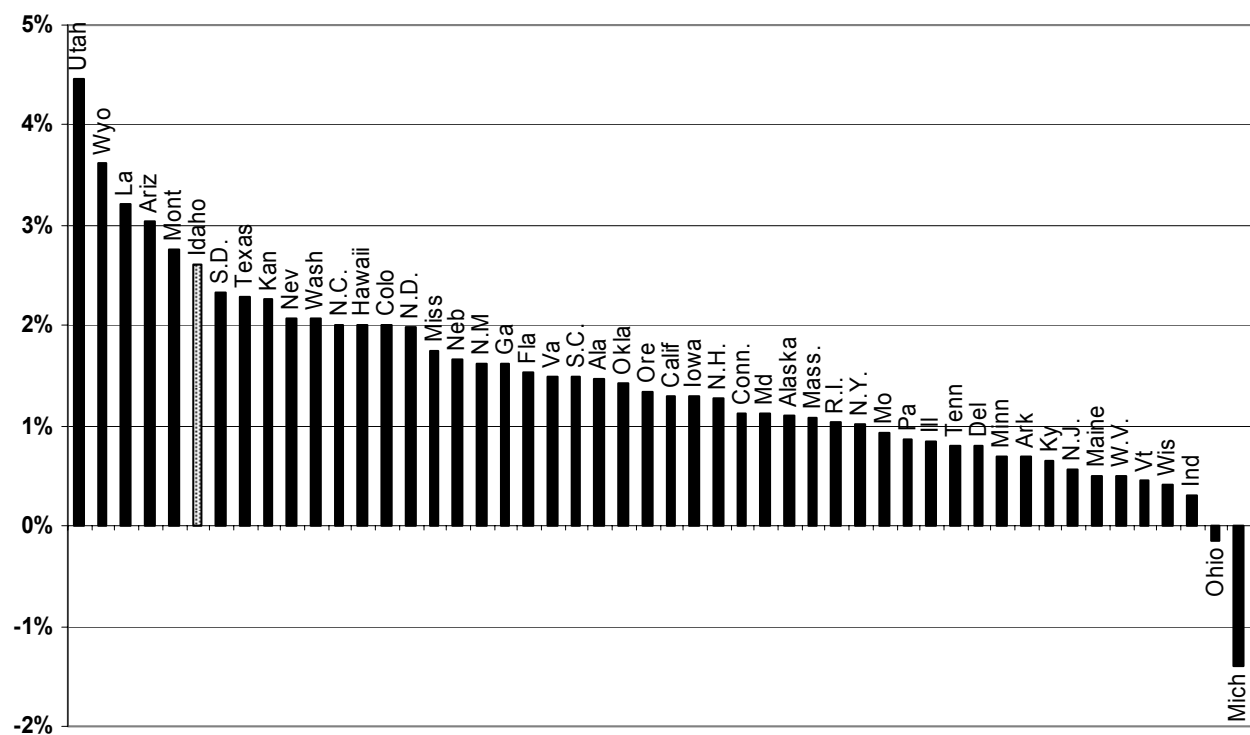
FYI Table 1: U.S., Idaho Monthly Unemployment Rates, 1997-2007



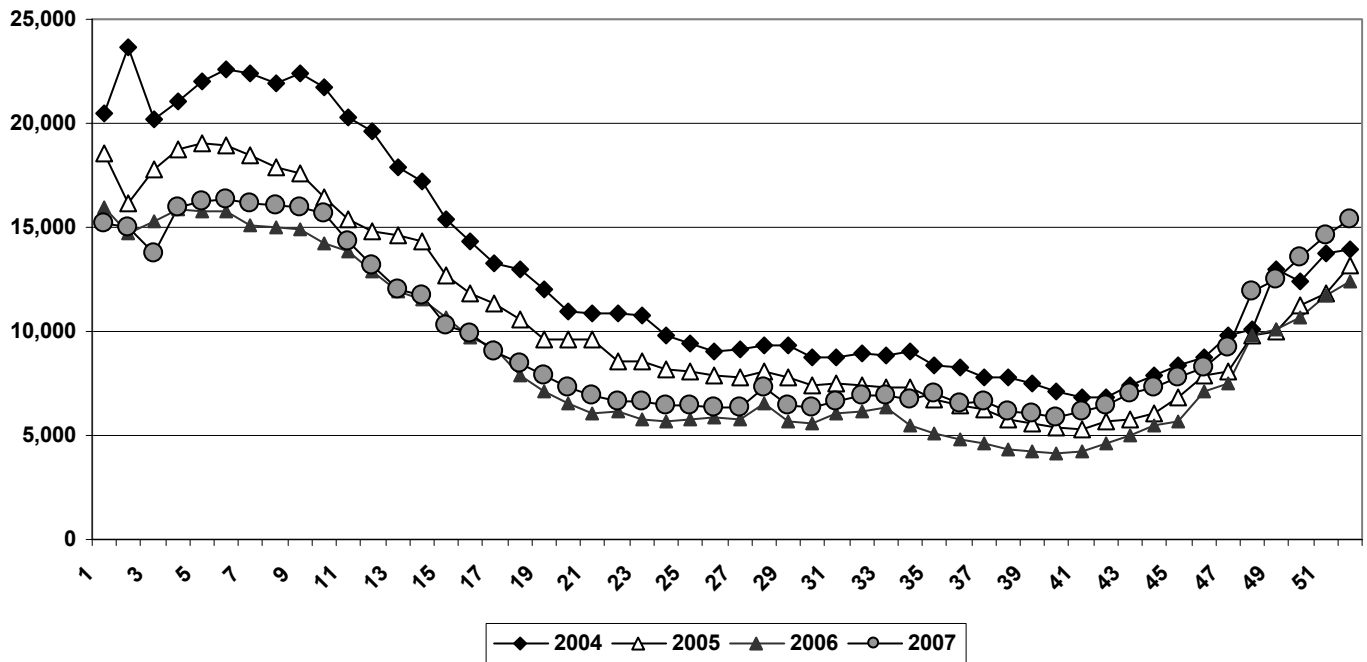
FYI Table 2: Sectors Contribution to Job Growth



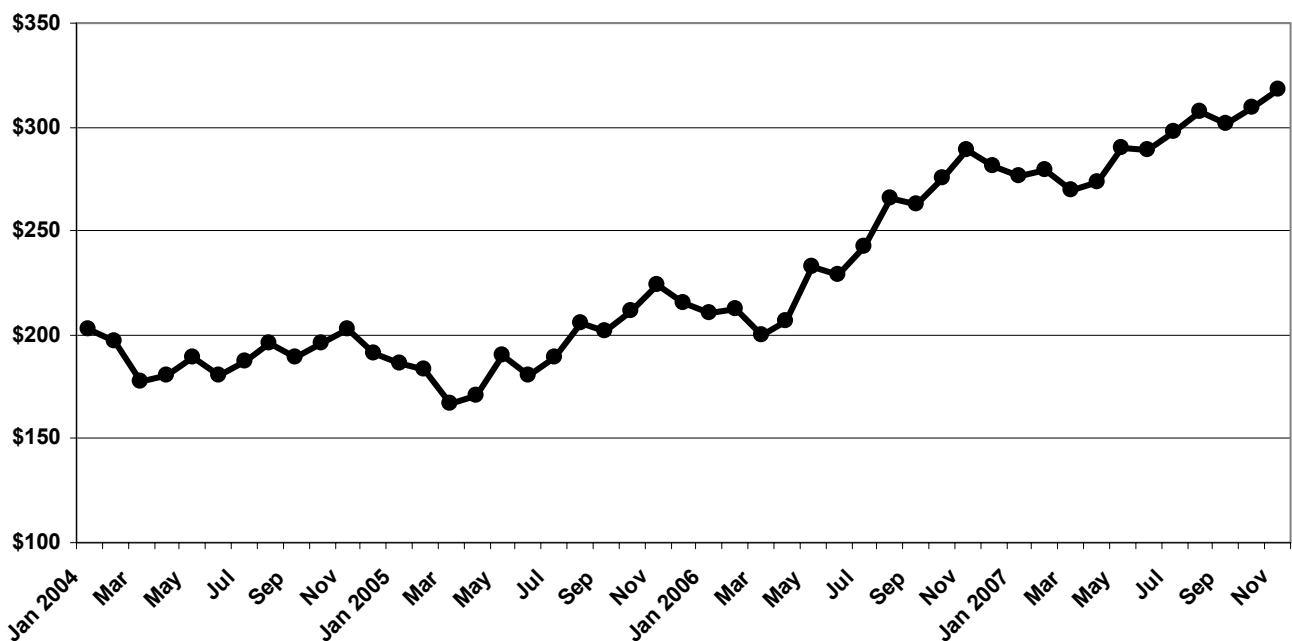
FYI Table 3: January - November Job Growth, 2006 - 2007



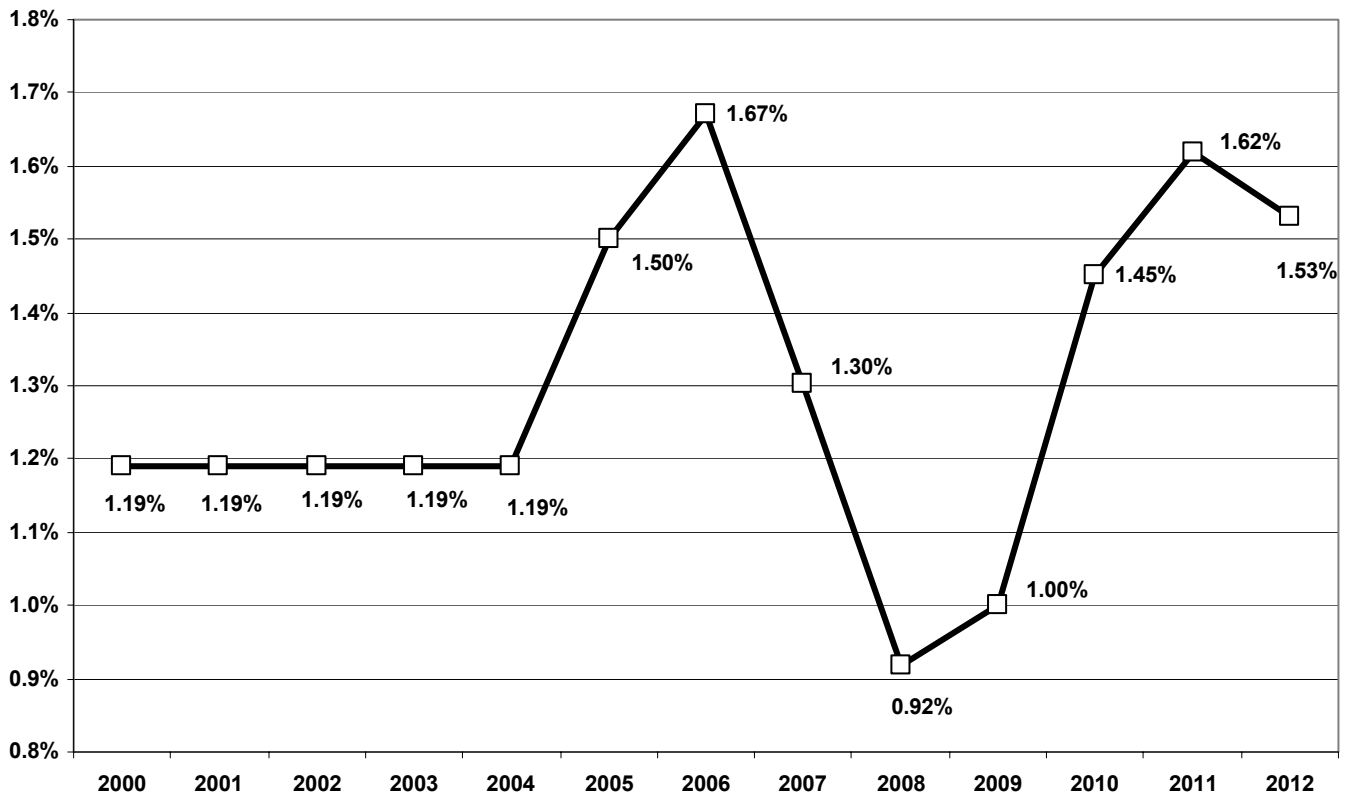
FYI Table 4: Unemployment Insurance Weeks Compensated 2004 - 2007, by Week



FYI Table 5: Unemployment Insurance Trust Fund Monthly Balance (in millions)



FYI Table 6: Average Effective UI Tax Rate



FYI Table 7: October UI Claimant Occupations

